

## Message Text

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ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 SWF-02 AID-20 CEA-02 CIAE-00

COME-00 EB-11 FRB-03 INR-11 NSAE-00 RSC-01 CIEP-03

SP-03 STR-08 TRSE-00 LAB-06 SIL-01 SAM-01 OMB-01

AGR-20 DRC-01 /134 W

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FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 7298

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY ROME

AMEMBASSY PARIS

USMISSION GENEVA

USMISSION OECD PARIS

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PASS AGRICULTURE

E.O. 11652: N/A

TAGS: EAGR, EEC

SUBJECT: EC BEEF SITUATION-IMPORT EMBARGO

1. BEGIN SUMMARY: THE BEEF PROBLEM CONTINUES TO AGITATE THE COMMUNITY. THERE IS LITTLE PRECEDENT FOR SUCH DRASTIC MEASURES AS THE FOUR-MONTH IMPORT EMBARGO ON PRACTICALLY ALL BEEF IMPORTS. RE EXPORTS TO THE USSR: A DEAL IS UNDER CONSIDERATION BUT NOT YET CONCLUDED. ACCORDING TO SOAMES, THE EMBARGO WAS DISCUSSED IN A RESTRICTED SESSION OF THE LIMITED OFFICIAL USE

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COUNCIL OF FOREIGN MINISTERS ON JULY 23. SOAMES HAS EXPRESSED

THE HOPE THAT THE IMPORT BAN CAN BE ENDED EARLIER THAN SCHEDULED BUT OTHER SOURCES BELIEVE THAT IT WILL BE EXTENDED BEYOND ITS PRESENT TERMINAL DATE, THE END OF OCTOBER, 1974. END SUMMARY.

2. PREVIOUS COMMUNITY AGRICULTURAL CRISES (E.G. GRAIN AND DAIRY SURPLUSES) OCCURRED WHEN CONSUMER PURCHASING POWER WAS GROWING. THE BEEF CRISIS, ON THE OTHER HAND (WHICH IS ONLY ONE ASPECT OF THE GENERAL PROBLEM IN THE EC'S MEAT SECTOR), IS NOT JUST THE RESULT OF RISING DOMESTIC PRODUCTION. IT IS PRIMARILY DUE TO DECLINING DEMAND, CAUSED BY A FALL IN REAL INCOME, WHICH HAS NOT BEEN EQUALLY REFLECTED IN PRODUCER AND CONSUMER PRICES. ALTHOUGH PRODUCER PRICES ARE NOT PARTICULARLY LOW IF VIEWED IN HISTORICAL PERSPECTIVE (IN MID-1974, EC BEEF PRODUCER PRICES WERE ONLY ABOUT TWO PERCENT BELOW THE PRICES PREVAILING AT THE SAME TIME IN 1972, AND ABOUT SIX PERCENT BELOW THE VERY HIGH PRICES WHICH PREVAILED IN MID-1973), THE DECLINE IN PRODUCER PRICES HAS BEEN ACCOMPANIED BY SIGNIFICANT INCREASES IN COSTS OF FARM INPUTS, WHICH HAS CAUSED A PRICE-COST SQUEEZE AND WIDE-SPREAD FARM UNREST.

3. THESE DEVELOPMENTS HAVE LED TO A DRASTIC REVERSAL IN THE COMMUNITY'S BEEF SUPPLY SITUATION. OVER THE LAST TWELVE YEARS, IMPORT DEMAND HAS INCREASED. IT WAS BELIEVED THAT IN THE LONG RUN THE COMMUNITY WOULD REMAIN A NET IMPORTER OF BEEF ON A LARGE SCALE. HOWEVER, THE HIGH BEEF PRICES WHICH HAVE PREVAILED OVER THE PAST TWO YEARS HAVE LED TO A CONSIDERABLE INCREASE IN DOMESTIC PRODUCTION. WITH THE RECENT DECLINE IN CONSUMER DEMAND, IMPORT REQUIREMENTS DISAPPEARED AND DOMESTIC INTERVENTION SURPLUSES DEVELOPED.

4. VARIOUS MEASURES TAKEN BY THE COMMUNITY TO COPE WITH ITS SURPLUS PROBLEMS PROVED INSUFFICIENT. (THESE ACTIONS-RESTRICTIONS OF IMPORTS, DOMESTIC INTERVENTION MEASURES, AND PROMOTION OF EXPORTS--HAVE BEEN REPORTED IN PREVIOUS USEC MESSAGES.) THE COUNCIL DECIDED THEREFORE ON JULY 16 ON A COMPLETE IMPORT EMBARGO FOR ALL BEEF LIMITED OFFICIAL USE

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(EXCEPT BEEF PERMITTED TO BE IMPORTED LEVY-FREE UNDER THE GATT QUOTAS--I.E. 34,000 MT OF FROZEN BEEF AND SOME SO-CALLED "MOUNTIAN CATTLE"). EVEN IN PUBLIC STATEMENTS, IT IS ADMITTED THAT THE EMBARGO WAS IMPOSED FOR ITS POLITICAL EFFECT ON FARMERS, SINCE IT WILL NOT HAVE SUBSTANTIAL ECONOMIC IMPACT AND WILL NOT REVERSE THE SITUATION, WHICH CONTINUES TO DETERIORATE. AS ONE WOULD EXPECT, THE EMBARGO HAS PROMPTED STRONG PROTESTS FROM THE TRADITIONAL THIRD-

COUNTRY BEEF EXPORTERS (NEW ZEALAND, AUSTRALIA, ARGENTINA, URUGUAY, AND THE EASTERN EUROPEAN COUNTRIES).

5. AS A RESULT OF PRESS STORIES REGARDING EC OR FRENCH BEEF EXPORTS TO THE USSR AT REDUCED PRICES, THE COMMISSION STATED ON JULY 26 (A) THAT THE COMMISSION DOES NOT ENGAGE IN COMMERCIAL EXPORT ACTIVITY, AND THAT LARDINOIS HAD NOT, AS ALLEGED, MET SOVIET OFFICIALS FOR SUCH PURPOSE; (B) THAT EC EXPORT SUBSIDIES FOR BEEF ARE UNIFORM FOR ALL DESTINATIONS, AND THERE ARE NO SPECIAL SUBSIDIES FOR THE SOVIET UNION; AND (C) THAT THE COMMISSION IS OPPOSED TO SALES BELOW THE WORLD MARKET PRICE--ITS SUBSIDIES AIM AT BRINGING THE EC PRICE DOWN TO THE WORLD PRICE--AND THAT ADDITIONAL MEMBER-STATE SUBSIDIES WOULD BE ILLEGAL. THE COMMISSION ALSO NOTED THAT COMMERCIAL EXPORTERS COULD CONTRACT TO EXPORT BEEF AND RECEIVE THE STANDARD SUBSIDY.

6. REPORTS THAT FRANCE HAD CONCLUDED A DEAL WITH THE USSR FOR SOME 50,000 MT OF BEEF HAVE NOT, SO FAR, BEEN CONFIRMED. HOWEVER, COMMISSION SOURCES HAVE SAID THAT THE DEAL IS UNDER ACTIVE CONSIDERATION BY THE FRENCH GOVERNMENT (POSSIBLY INVOLVING PUTATIVELY ILLEGAL FRENCH NATIONAL SUBSIDIES IN ADDITION TO THE REGULAR COMMUNITY SUBSIDIES.)

7. IN A CONVERSATION LAST WEEK WITH AMBASSADOR GREENWALD, SOAMES STATED THAT HE HAD RAISED THE FOREIGN POLICY ASPECT OF THE BEEF EMBARGO AT THE RESTRICTED SESSION OF THE COUNCIL OF FOREIGN MINISTERS ON JULY 23. HE REPORTED THAT THE MATTER WOULD BE PLACED ON THE AGENDA OF THE NEXT FOREIGN MINISTERS' COUNCIL MEETING IN SEPTEMBER. AT THAT TIME, THEY WOULD DISCUSS THE GENERAL PROBLEM OF DECISIONS TAKEN BY AGRICULTURE MINISTERS WHICH AFFECT EXTERNAL LIMITED OFFICIAL USE

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RELATIONS OF THE COMMUNITY AS WELL AS THE SPECIFIC QUESTION OF ENDING THE BEEF EMBARGO. SOAMES SAID HE HAD SOME HOPE THAT THE IMPORT EMBARGO COULD BE ENDED EARLIER THAN PRESENTLY CONTEMPLATED. HOWEVER, MOST COMMISSION OBSERVERS WITH WHOM WE HAVE TALKED BELIEVE THAT THE BEEF SURPLUSES WILL FURTHER INCREASE IN THE COMING MONTHS, AND THAT THE IMPORT EMBARGO MAY HAVE TO BE EXTENDED BEYOND OCTOBER 31. GREENWALD

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## Message Attributes

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